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## **Cigar Store**

## **Marketing and Customer Service Audit**

## **Preface**

The Cigar Store Marketing and Customer Service Audit is a Keppel Research Consultants report sponsored by The Cigar Store. Keppel Research Consultants analysts conducted the depth interviews and wrote the final report.

Stephen Keppel, President of Keppel Research Consultants, was responsible for the design and execution of this audit and was the lead analyst of the report.

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## **Introduction/Background**

Mr. Sam Young opened the Cigar Store at the Shopping Center in 1996. The Cigar Store is an independently owned and operated franchise. Sales were reported to be very good as the Cigar Store rode the sudden popularity of cigar smoking in the mid-1990's. After he passed away in 2001 the store was sold to Mr. Tom Smith. For 3 years sales reportedly did not continue to rise and had gotten quite stagnant when the store was once again sold to Mr. Joe Green in 2004. The sale included all inventory, the franchise agreement, and the current lease at Shopping Center which runs until 2011.

Sales remained somewhat stagnant with a slight decline as the popularity of cigar smoking leveled out and started to decline. In 2006, Cigars International (CI), a large online discount cigar company opened a 5,000 sq. foot free standing retail superstore within 1 mile of the Cigar Store location. In 2007, CI was purchased by Swedish Match, a multi-national company based in Sweden. Sales immediately began to fall precipitously. Within the last 3 years, the owner reports the Cigar Store sales have fallen approximately 50%.

The Tinder Box offers cigars, pipes, and exclusive tobaccos as well as other items such as humidors, cutters, lighters, air purifying systems and Lampe Berger aromatic lamps and fragrances.

Recent state regulations regarding tobacco products have both hurt and helped cigar stores. The 2009 federal tax increase in tobacco products amounts to an increase of 40 cents per cigar continues to hurt sales, but the more restrictive state legislation banning cigar and cigarette smoking in restaurants and most bars/taverns and all commercial buildings actually pushes more cigar smokers into the cigar stores that offer lounges to smoke. Currently, the state of Pennsylvania legislature did not pass a new tax on tobacco but may consider the tax in 2010 that will continue to put a downward pressure on sales.

The overall short term goals of the owner are to simply, "pay my bills." The long term (2-3year) goal is to "get out of the business."

### **About the Audit:**

This Marketing and Customer Service audit was conducted from November 9<sup>th</sup> – 15<sup>th</sup> and is designed to provide an objective evaluation of the owner, employees, and key customers to highlight specific strengths and weaknesses of the Cigar Store and what can be done to achieve the owners goals and objectives. Depth interviews were conducted with the owner Joe Green, all four employees, and several "key" customers. The owner and all employees were also "observed" by the analyst on four separate occasions. In addition, four "Mystery Shops" were conducted during several shifts to evaluate the current level of customer service provided new potential customers.

# **Key Findings**

## **Employee Sales Staff Training**

Upon hiring, new employees are required to spend at least one shift with Jack Kelly, senior employee, who has been working at the Cigar Store for the past 8 years. Primarily, the instruction was on how to run the register, how to close, how to keep the store clean, how to keep the cabinets properly humidified, and how to approach the customer. Paul also provides cigar product knowledge to the new employees but most is left up to the individual employee through books and the internet. The sales ability of the employees was uneven. Some are excellent, while others are more laid back.

All new employees are instructed by the owner, (and Jack), how to approach the customer. The following is a summary of how to approach the customer:

1. Immediately stand up, greet customer and ask if they can be of any assistance. If not, just let them know they can call on them when they are ready. If yes, ask whether the cigar is for them or a gift. Whether it they are an experienced/new cigar smoker, or if they like mild or more full bodied cigar. Ask appropriate questions to ascertain cigar experience and preference.
2. Make the selling experience as “comfortable” as you can. “Get the right cigar that they want. Not necessary to up sell.” No need to get all their money now. Rather they come back in later for all their tobacco products.

Through observations and actual new customer evaluations, this Customer greeting procedure was not consistently conducted by each employee. On two occasions, the customer was not immediately acknowledged by the employee and once the store actually looked completely empty as the customer walked in. The employee was engrossed in watching a TV program and did not acknowledge the customer immediately.

In addition, not all employees were consistent in keeping the store clean which includes the ash trays, the carpet and the bathroom.

The employees are generally very knowledgeable about the products, again some more than others. They are following the owners instructions not to up sell a new customer. But in some of the shops, there were several opportunities to help the customer with a recommendation or to make some type of a combination. This was especially true when the new customer was looking for a gift. And in another case, a new young smoker was ready to try several brands, but no recommendation of a particular cigar or several cigars were made for that customer to try.

There is currently no employee sales incentive program.

The entire sales staff is very loyal to the owner. In some ways, this is much more than just a job to them. They truly want to see Joe succeed.

## **Product**

By all accounts, the owner, employees and customers, believe the cigar selection has decreased within the last two years. This has coincided with the opening of the Cigar International superstore (CI). General Cigar, a large distributor of many popular cigar brands, began distributing their family of brands to CI, and Mr. Green decided to no longer carry any General Cigar brands in his store.

It was also reported that there are some cigars in the cabinets that have not been sold for nearly a year.

Other product areas have also experienced a decline, or inconsistent level in available stock, hookahs and hookah paraphernalia, humidors, and a selection of a full range of pipes. Pipe tobacco and tobacco for hand rolling cigarettes has increased in sales in the last year.

In addition, some employees and customers have noted that the cigars have become more brittle and dried out in the past two years.

## **Store**

Overall Location and Appearance:

The store location has many positives and one major negative, the proximity to CI. The current lease lasts until Spring 2011.

The employees, customers, and the mystery shoppers agreed that the overall store looks a bit shabby, rundown, and cluttered. It does not convey the image it once had as a distinguished cigar shop and smoking lounge in the English or New England tradition. The furniture, while comfortable, is very worn. The carpet is also worn and often dirty with ashes.

Front window displays are often empty and not always lit at night giving an appearance from the outside that the store is closed. The product shelves are not as full as they have been in the past giving a sense that there is a lot of out of stock items.

Cleanliness:

The overall cleanliness varied by time of day and shift. In observation, for several days the magazines were laying on the floor of the table, strewn about. In the week of observation, the ash trays were not consistently emptied when full even after the customers had left. Ashes strewn on the floor were not always swept up.

Sometimes, the carpet had looked like it had gone several days without being vacuumed. On occasion, the aluminum recycle bin was seen overflowing.

In the bathroom, well, some improvement can definitely be made here. There is no scheduled check for cleanliness by the employees. The waste can was sometimes full to the brim with paper towels.

Lounge:

The customers love the lounge. For many, it is the primary reason they come to the store. To sit, enjoy a cigar and converse with the owner, employees and other customers. As one person put it; "The lounge (with customers smoking) prevents this place from looking like a funeral home."

The main lounge is perfect for conversation and located right in the middle of the store so customers must pass right by them. However, the air is sometimes too smoke filled and new customers have to pass right through it. It can make the entire store seem more crowded. The secondary lounge is for overflow and TV viewing with a large screen TV in front of the window.

The air filtration system is not always effective when there are more than three or four smokers are in the lounge.

### **Customers**

A majority of the customers are men between the age of 30 and 55. Currently the store tracks 350 customers by a customer number and more recently has a Facebook account that has 149 "friends".

The lounge is a big draw for most of the "key" customers. It provides them with the "perfect" cigar smoking atmosphere and a great place to unwind. However, just having bodies smoking in the lounge is not a guarantee of an increase in sales for any particular day or any particular shift. Some people do not purchase a cigar at the store and still use the lounge. Others may purchase the least expensive cigar and spend a couple of hours in the lounge, just killing time.

It has been reported that several previous customers have gone over to CI. Reasons speculated is the greater variety of cigars especially mid range priced (\$3 - \$5) cigars. Even some of the "key" customers have admitted to doing this on occasion.

But they have not left yet. What is unmistakable is the amount of goodwill that the owner and employees have generated for the Cigar Store with the customers. Many said that without them, they would have left long ago. Even though the overall cigar selection, proper humidification of the cigars, and overall store cleanliness has declined in the past two years most said they desperately want to see this store survive. This is an extremely valuable and not one that declining

retail outlets enjoy. They want to see you succeed. And these customers, for the most part, are very welcoming of new customers to the Cigar Store family.

### **Marketing/Advertising/Promotions**

Two years ago, several cigar events were conducted every 3-4 months including a cigar dinner or two. Recently there have been fewer and fewer events. When asked about the marketing/advertising program, one comment was "There is one?"

Some internet emailing notices have been sent out announcing "specials". More recently, a Cigar Store Facebook account has been established currently with 149 "friends". In addition, there is a month long radio spot campaign going on with WZZO radio station for the holidays.

There is a sophisticated sales/customer tracking software installed on the register. Currently there are about 350 customer numbers. It tracks the date, the type of cigar, the amount purchased, the amount purchased last year, and the number of individual visits automatically. However, much of the other information it can collect such as birthday, anniversary, favorite sports teams etc. is incomplete on most customers. Much of the information available is not utilized to the degree it can be.

### **Competition**

This begins and ends with the Cigar International which opened a large Superstore located not one mile away in 2006, the dreaded CI. Use any description you want, CI is the Walmart, the Home Depot, the Cabela of the cigar world. They offer extremely inexpensive cigar deals online, and in their massive 5000 square foot retail outlet they offer very inexpensive cigar deals on all popular brands, not so well known brands and also on the most expensive cigar lines such as Davidoff and Pardon Anniversaries. They can beat any price the Cigar Store may offer. All pricing strategies to meet or beat the prices are off the table.

Their facility is very professional. The store inside is like a large barn with very high ceilings. The building is a self contained humidior and very well ventilated and lit. All products are displayed extremely well, the merchandising and marketing is very professional, and geared for selling a lot of product very fast.

The lounge is large with comfortable chairs. However, even sitting there, you never forget you are in a massive retail store. It is a bit impersonal, somewhat intimidating to the new cigar smoker, the young smoker. In two visits there, I could not find a seat in the main lounge. I had to sit on a very high bar type chair in the middle of the store with customers filing around me that was not very comfortable. When I did get to sit in the lounge area, I was not approached by

any customers and engaged in conversation. And, with the number of “regulars” there (over 8 in one area) it just did not seem comfortable to interrupt and jump in. A large flat screen HD TV and coffee is available free of charge. For espresso, the cost is 50 cents.

In the mystery shops, not one of our customers was approached as they walked in and started walking the store checking out the products. You had to go to the checkout counter to get someone’s attention. They all seemed very busy doing something so you almost felt like you were bothering them. Again, very impersonal. However, once you got their attention they were very attentive, friendly and knowledgeable.

The store is beautifully decorated with cigar sales posters, their own upcoming promotional events, deer and elk heads mounted on the walls, and a mountain lion skin. Very macho and masculine. Bathrooms are very clean. They offer small wooden cabinets as your personal cigar locker. For \$250 a year, you can place your cigars and your alcohol in these lockers. In addition, they give you 5 cigars a month to try free of charge and to rate them for CI. The retail value of these sample packages was about \$20. So in effect, the free cigars pay the rental. They also send you a newsletter with special “deals” just for you.

Bottom line, they are an extremely formidable competitor. However, as has been observed, the Cigar Store does have some advantages. CI’s own success does provide an opening for you. They have been described as impersonal and intimidating. The more customers that jam into the store, the less inviting and comfortable it is to some customers. One, you do not need to have 15 or 20 new customers coming in each night. You only need one or two more.

The Cigar Store is described as a more intimate location. You can offer them an alternative. You are not the big discount provider. You are what you are. And you have generated an impressive level of customer goodwill. However, goodwill, without a plan to capitalize on it will only result in a slow demise rather than a quick one.

### **Owner**

The owner, Joe Green, has many strengths which include a very strong financial background and most important, extremely strong interpersonal skills that have endeared him to customers, employees and vendors. He has been dealt a very difficult hand with multiple negative occurring events; a general leveling off of the cigar boom, new federal tax increases on tobacco, and the most damaging, the opening of CI within one mile of his location. Without his personal financial resources and his interpersonal skills, he would have been run out of business a year ago.

Joe also has a few of weaknesses to overcome. He has little to no additional financial resources to put back into the business unless he can marginally increase sales. He has an adequate, but not strong marketing/promotional background, but more importantly, his enthusiasm is waning and he is emotionally tapped out.

## **Recommendations**

The owner has very limited financial resources available at this time and has expressed two primary goals: Short term to make enough sales to pay the bills and longer term to get out of the business after the lease is up. The following recommendations are presented with these limitations and goals in mind. Again, each of these recommendations is formulated to help you marginally increase sales in the short term for little to no financial investment, and in the long term may help to make the store more attractive to potential buyers/partners. Do not be overwhelmed with the number of recommendations. Make a plan to consider perhaps one or two of them in each area each month.

### **Sales Staff**

1. Training - Review and reinforce the employee training regarding Customer Service and Cleaning. The ash trays should be emptied after each set of customer's leaves. Vacuum as necessary throughout the day during slow times. Scheduled check of bathroom every 2 hours and clean as necessary. Employees must ask all customers if they have a customer number, and email address, or if they are on Facebook.
2. Professional Appearance - Institute a more professional dress code. At least business casual. No jeans, sloppy shirts and sneakers.
3. Sales - May want to consider having the employees up sell. They must always mention the "Buy 6 Get One Free" special and any other store specials, promotions and events that are going on. They must ask if the customer has a customer number, email address and/or Facebook account and other pertinent information. Up selling can be done without having the employees appear "pushy." Consider initiating an employee sales incentive program. Provide a program so they a financial incentive to increase sales. [SEE MARKETING/ADVERTISING/PROMOTION]
4. Consider publicizing selected sales staff recommendations in the store.
5. No TV watching in TV lounge by the sales staff. Music is better as background. TV should only be on if requested by customers.

## **Product**

1. Upon reordering, begin to stock the most popular, most requested General Cigar brands, especially those priced \$3 - \$6. It is reported that several new customers each week have come in and asked for these brands and have then left when told the Tinder Box does not carry them.
2. Package poor selling cigars with popular brands in a package as a way to get them sold and out of the cabinets making room for other more popular brands.
3. Consolidate the product in the cabinets. Keep on top of the stock inventory. Keep the cabinets you are using full and the boxes of cigars full.
4. Offer interesting one of a kind brands such as Lars Teetans.
5. Consider offering Acids for the younger demographic.
6. Add more reasonably priced pipes; keep hookah supplies and tobacco products well stocked.
7. Cigarette rolling equipment and tobacco is reported to be a good seller and is catching on nationwide. Promote it.

## **Store**

1. Spruce up the store with fresh coat of paint. Cost is minimal and it will give the store a fresher appearance.
2. Keep the store cleaner on a shift by shift basis. Empty ash trays more often and vacuum as needed. Keep an eye on the recycle bin and do not let it get too full. Clean up all the old magazines and only keep a few.
3. Consider rearranging the lounge a bit and consolidating the two areas into one area. Just moving the furniture around can give the place a "new" look.
4. Unclutter the cabinets and think about eliminating some of them. Get rid of Franklin Mint products. Sell them on EBay or use as prizes. Perhaps move the cabinets that are in the front window.

## **Marketing/Advertising/Promotion**

1. Update customer tracking system and make better use of it.
2. Increase the emailing of special deals to individual customers based on what they have purchased before. When you get new stock of a particular brand, notify those customers by email that have purchased that product before and offer a special.
3. Send emails to customers who have not been in the store in over a month. Offer discounts to come back in.
4. Give a discount or free cigar if the new customer signs up for a customer number, provides an email address, and especially if they become "friends" with the Tinder box on Facebook.
5. Utilize your sales staff more. Develop an Employee Sales Incentive Program. Include in this any events that employees initiate, promote, and run. Give them a percentage of the profits based on bringing new customers into the store and/or increased sales for that shift.
6. Lean on your vendors more. Try to get more samples to pass out to selected customers to taste. Have them get involved in more "events".
7. Offer more small events every two - three weeks including events that employees initiate for their shift. Add more weekly "specials" that all employees must promote by mentioning them to all customers who come into the store.
8. Lean on your "key" customers more. Use the massive goodwill you have created with them and ask them to help not only support the events but also to initiate some of their own through parties etc.
9. Target young, new cigar smokers. College kids and those age 20-29. Get to fraternities, student newspaper, campus concerts.
10. Expand your use of Facebook and consider using Twitter as well to communicate specials to your customers.
11. You need to do some research on new customers, especially young customers as they come in. Why did they come in, what did they buy, would they come back? When they come back, why did they come back?

## **Owner**

1. Get motivated again. Achievement of your short term and long term goals depend on it.
2. Develop a plan to increase sales, even marginally each month. Solicit ideas from your sales staff and then share your plan with them.
3. Lean on sales staff for marketing event ideas. Challenge them and incentivize them for any successful execution of those ideas.
4. Lean on “key” customers to help support events.
5. Lean on your vendors for more support.
6. In one year, November, 2010, consider your options. Begin the process to liquidate your entire inventory to shut down the store in the Spring of 2011, or to sell to a buyer/partner, or to consider a new location.

These recommendations are made to satisfy your short term goals of “paying the bills”. And, between now and until your lease runs out in 2011, enacting some of these recommendations may help your store look more attractive and provide you a boost of new customers and sales that may give you more and better options in 2011. If the goal remains to sell, it will create a more positive environment for someone who may be interested in your business.

**APPENDIX A**

**Customer Service Evaluation Form**

**Shopper Age:** \_\_\_\_\_ **Date:** \_\_\_\_\_ **Day:** \_\_\_\_\_ **Time:** \_\_\_\_\_

**Employee Name:** \_\_\_\_\_

**Scenario:** \_\_\_\_\_

**Parking:** \_\_\_\_\_

**Cleanliness immediately Outside Facility:** \_\_\_\_\_

**Inside cleanliness:** \_\_\_\_\_

**Layout of the Facility:** \_\_\_\_\_

**Number of Employees in store:** \_\_\_\_\_

**Number of Customers in store:** \_\_\_\_\_

**Store atmosphere:** \_\_\_\_\_

\_\_\_\_\_  
**Professional appearance of employees:** \_\_\_\_\_

\_\_\_\_\_  
**Air Quality in Store:** \_\_\_\_\_

**How long until they greeted you:** \_\_\_\_\_

**What was the Greeting:** \_\_\_\_\_

\_\_\_\_\_  
**Give you his/her full attention:** \_\_\_\_\_

**Ask you any questions:** \_\_\_\_\_

\_\_\_\_\_  
**Listen attentively to you:** \_\_\_\_\_

**Knowledge of products:** \_\_\_\_\_

\_\_\_\_\_

**Sales Ability:** \_\_\_\_\_

\_\_\_\_\_

**What did they try and sell you:** \_\_\_\_\_

**Spend enough time with you:** \_\_\_\_\_

**Accurately run the register:** \_\_\_\_\_

**Did they mention Buy 6 Get One Free** \_\_\_\_\_

**Did they ask for your email address:** \_\_\_\_\_ **Facebook:** \_\_\_\_\_

**Did they thank you:** \_\_\_\_\_ **Did they offer you a business card:** \_\_\_\_\_

**Closing Statement to you by employee:** \_\_\_\_\_

\_\_\_\_\_

**RATINGS**

	<u>Excellent</u>	<u>Very Good</u>	<u>OK</u>	<u>Needs Improvement</u>	<u>Poor</u>
<b>Friendliness:</b>	5	4	3	2	1
<b>Professional Manner:</b>	5	4	3	2	1
<b>Product Knowledge:</b>	5	4	3	2	1
<b>Customer Service:</b>	5	4	3	2	1
<b>Overall Experience:</b>	5	4	3	2	1

**What could they have done better?** \_\_\_\_\_

\_\_\_\_\_

**Additional comments:** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_